

HIGH DESERT RETAIL ECONOMY

SAN BERNARDINO COUNTY, CALIFORNIA

May 14, 2008

Prepared By:

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Commissioned By:

County of San Bernardino

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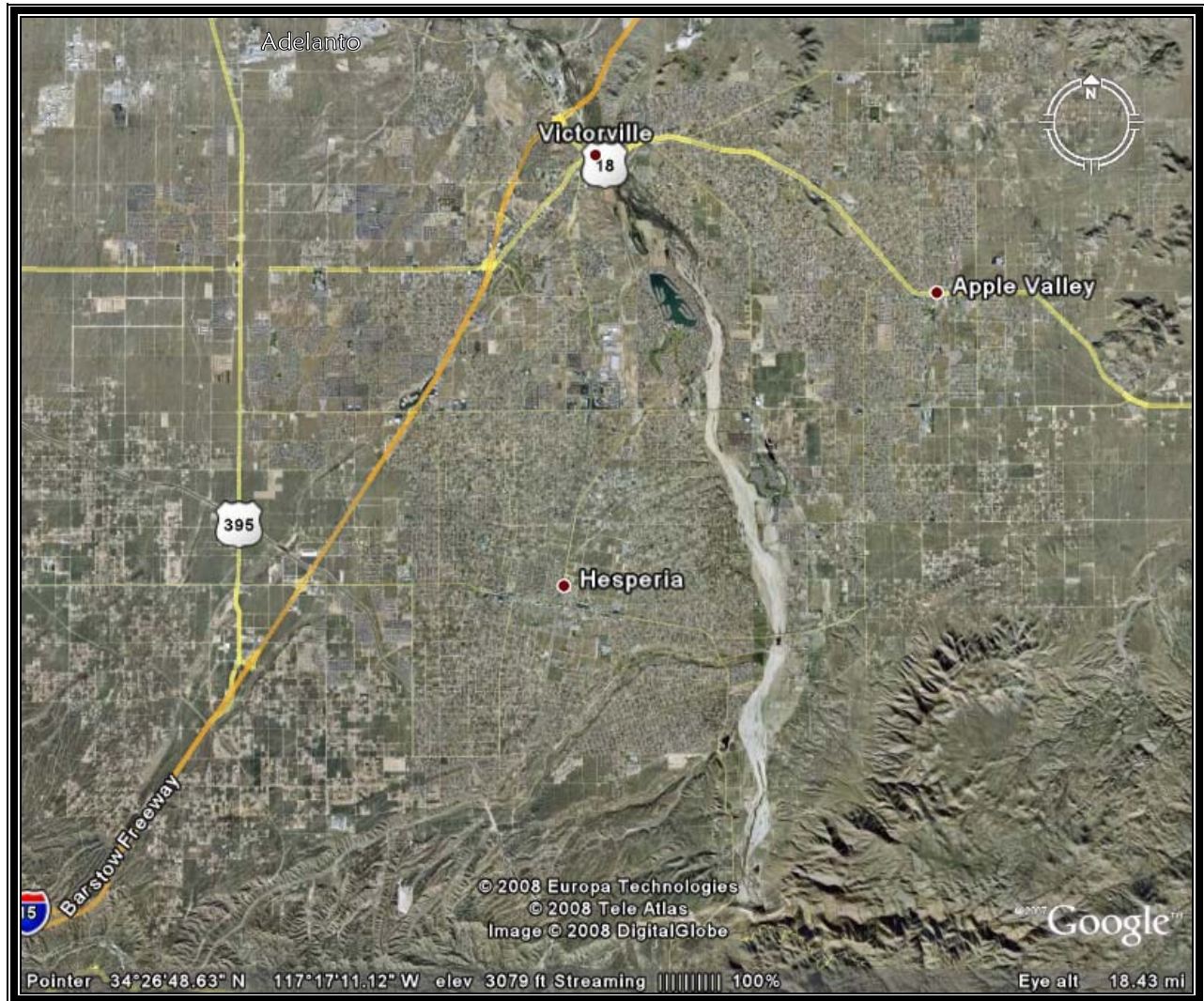
COUNTY OF
SAN BERNARDINO



ECONOMIC DEVELOPMENT AGENCY

San Bernardino County, California

High Desert Retail Economy



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Executive Summary

In roughly 2000, the migration of Southern California's edge of high speed economic growth began to dramatically change the High Desert/Victor Valley market:

- Population soared by 120,133 people (48.7%) from 2000-January 2007 reaching 366,989 with the expectation that it will hit 425,392 by mid-2012. The population was 333,585 in 2006. It went up 10.0% from 2006-2007.
- Total taxable sales doubled from \$1.65 billion to \$3.32 billion between 2000 and 2006 (*100.3% increase*) or a compound growth rate of 12.3%. Inflation was just 22.7% indicating a huge increase in the physical volume of retail trade. *Note: retail sales data for 2007 are not yet available.*
- Payroll grew from \$1.56 billion to \$2.69 billion from 2000-2007, up \$1.13 billion or 72.3%.
- The total income of families in the High Desert grew significantly to \$5.79 billion in 2006
- It is estimated that \$2.09 billion (36.1%) of this income will be spent on categories that drive demand for retail space. This spending level is a conservative figure as population grew 10% from 2006-2007.
- The potential demand for retail space is estimated at 8.26 million square feet in 2006. It would be higher in 2007 due to the 10% increase in population and spending.
- In 2007, the existing occupied retail square footage is 5.69 million square feet. The potential additional space that could be occupied is 2.57 million square feet or an extra 45.1% using 2006 spending levels. Again, it would be more in 2007 given the 10% gain in population and related spending from 2006-2007.
- Much of the spending that could support this space is currently leaking out of the High Desert market.

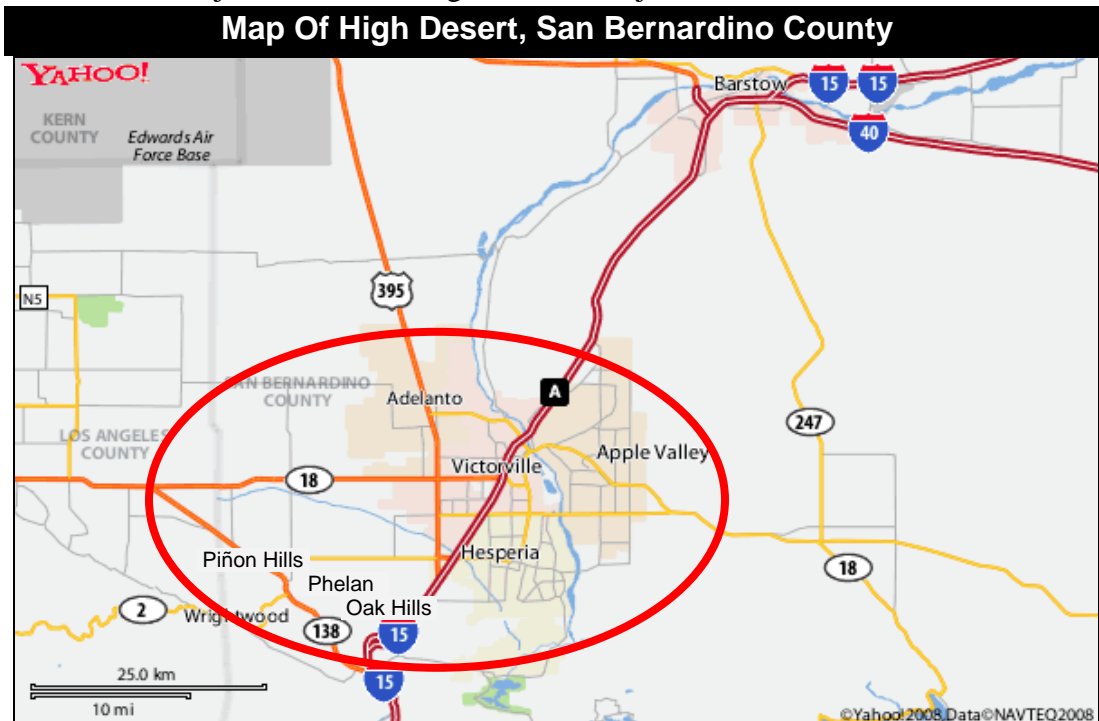
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San Bernardino County's High Desert or Victor Valley economic area is the most recent part of the county to be affected by the powerful forces associated with Southern California's 60 year process of outward expansion. The self-contained market area is composed of the contiguous incorporated cities of Victorville (102,538), Hesperia (85,876), Apple Valley (70,297) and Adelanto (27,136). It also includes such unincorporated areas as Oak Hills, Piñon Hills and Phelan, giving it a January 2007 population of 366,989 (*Exhibit 1*). This was up 10.0% from the January 2006 population of 333,585. Given the recent housing slowdown and a likely gradual recovery, the market is estimated to be at 375,340 people in mid-2007 with the anticipation that it will reach 391,312 in 2010 and 425,392 by mid-2012. The fact that the area has become the rapidly expanding edge of Southern California's urban expansion is unusual only in that it represents the first major thrust of the region into its adjacent deserts.

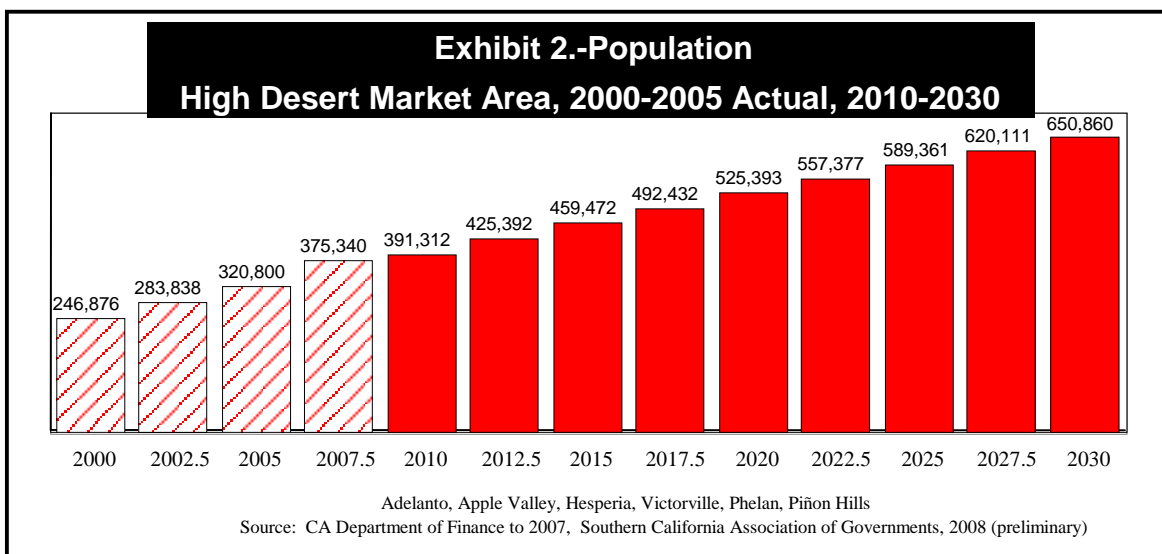


Recent Population Growth. From 1990-1993, the High Desert got the first hint of the major changes it would undergo when Southern California entered into the severe post Cold War defense recession and buyers flocked out to the area as it was the last place in the region with new homes for under \$100,000. In this period, the Victor Valley's population grew at an average annual rate of 6.07%. From 1993-2000, the growth slowed but still increased at 2.12% compounded, exceeding the 1.45% growth of San Bernardino County as a whole. From 2000-2007, the housing industry recognized that the High Desert provided its best long term chance to offer middle class homes to Southern Californians. In this stretch, growth was a rapid 5.83% per year or 48.7% (120,113) in seven years (*Exhibit 2*). As indicated, by mid-2007, population is estimated to have reached 375,340 despite the slowing of the housing cycle.

Exhibit 1.-Population High Desert Market Area & San Bernardino County, 1990-2007				
Year	High Desert		San Bernardino County	
1990	178,608		1,418,380	
1991	190,162	6.5%	1,463,068	3.2%
1992	201,669	6.1%	1,516,250	3.6%
1993	213,145	5.7%	1,546,375	2.0%
1994	219,534	3.0%	1,561,875	1.0%
1995	224,373	2.2%	1,573,975	0.8%
1996	227,599	1.4%	1,590,825	1.1%
1997	231,569	1.7%	1,613,700	1.4%
1998	235,167	1.6%	1,637,900	1.5%
1999	239,633	1.9%	1,666,555	1.7%
2000	246,876	3.0%	1,710,139	2.6%
2001	260,154	5.4%	1,746,847	2.1%
2002	274,145	5.4%	1,793,302	2.7%
2003	288,890	5.4%	1,842,325	2.7%
2004	304,427	5.4%	1,896,245	2.9%
2005	320,800	5.4%	1,948,454	2.8%
2006	333,585	4.0%	1,993,983	2.3%
2007	366,989	10.0%	2,028,013	1.7%
2000-2007	120,113	48.7%	317,874	18.6%

Sources: CA Department of Finance, Southern California Association of Governments, 2008

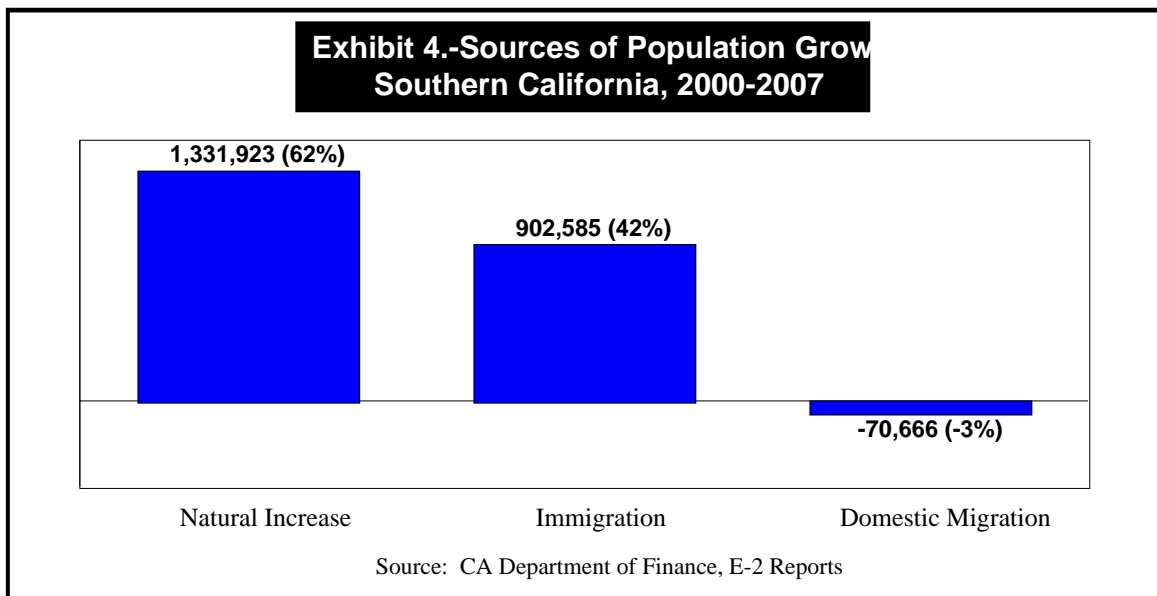
Population Forecast. Looking forward, the High Desert will likely go through a period of growth of around 1.68% a year from mid-2007 (375,340) to January 2010 (391,312) due to the housing slowdown and modest recovery. From there until mid-2012 (425,392), the population is conservatively expected to rise at a compound rate of 3.40% as lack of available land elsewhere to accommodate Southern California's population will again force the High Desert back into high growth mode.



Looking further ahead, the forecasts of the Southern California Association of Governments (SCAG), as part of its Regional Transportation Program, are relevant. Demographers working for the organization anticipate the High Desert market will grow to 459,472 people by 2015 (*up 92,482 or 25.2% from January 2007*) and 525,393 by 2020 (*up 158,404 or 43.2% from 2007*).

Why The Rapid Growth? The forecast of continued rapid growth in the Victor Valley is based upon an understanding of the manner in which Southern California has been expanding since World War II. In this long period, as land in its growing urban core has become saturated, the region's growth has aggressively poured into the next adjacent area. In the process, places like the San Fernando Valley, San Gabriel Valley and Orange County have gone through long periods of aggressive expansion. This phenomenon hit the valley portions of the Inland Empire in the late 1970s and has begun to saturate the available land in large swaths of that area. That is why the High Desert has become Southern California's principal new high growth center.

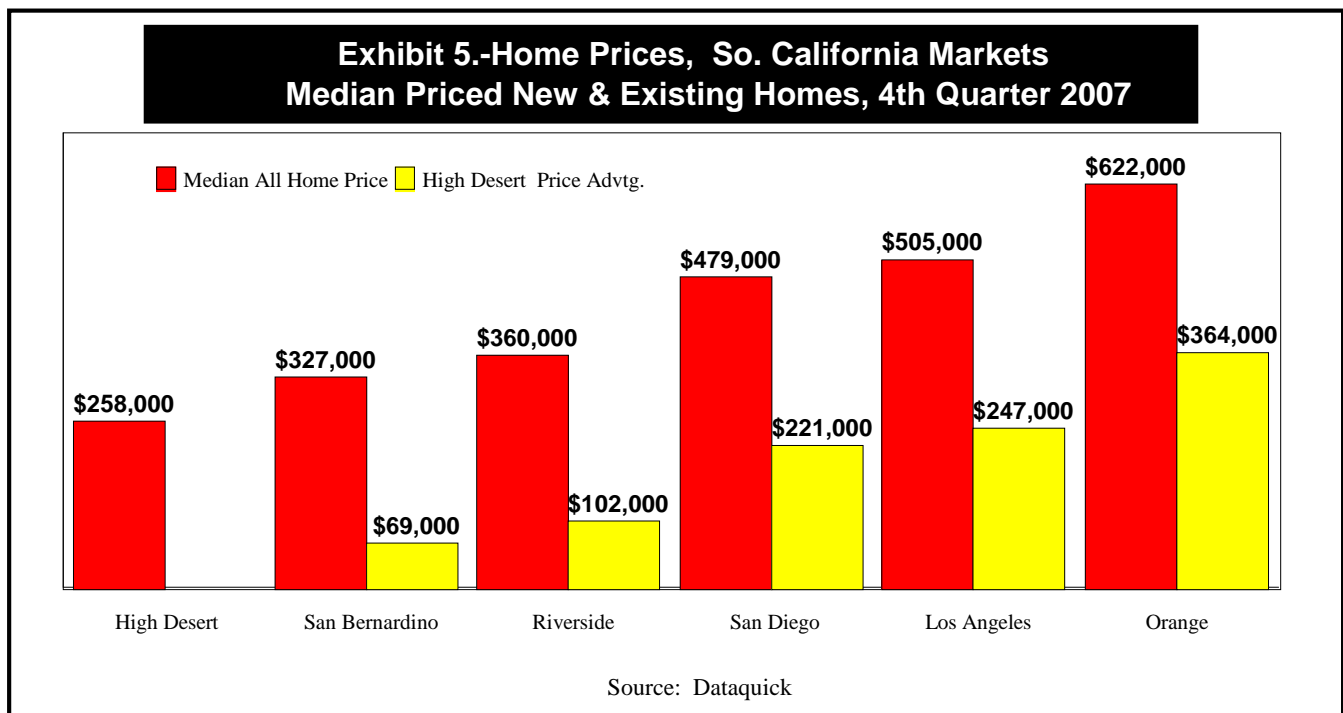
Horizontal Growth. The process comes about primarily because each year thousands of new people end up living in Southern California. From 2000-2007, the growth added 2,163,842 people. Of these, 1,331,923 or 62% came from the natural increase of births over deaths. Most of this group will grow up wanting to be near their families or liking the area's climate. Meanwhile, 902,585 or 42% was from net foreign immigration with net domestic migration off 70,686 or -3%. The influx of people from around the world came as people responded to Southern California's economic strength and multiculturalism as well as its unfettered lifestyle plus Hollywood's projection of its sunny success (*Exhibit 4*).



As Southern California adds people, an important preferences becomes evident. Most families prefer to live in detached homes. For most, this is the American dream. For those from the third world, it is an achievement that was often impossible at home. A survey by the Public Policy Institute of California asked:

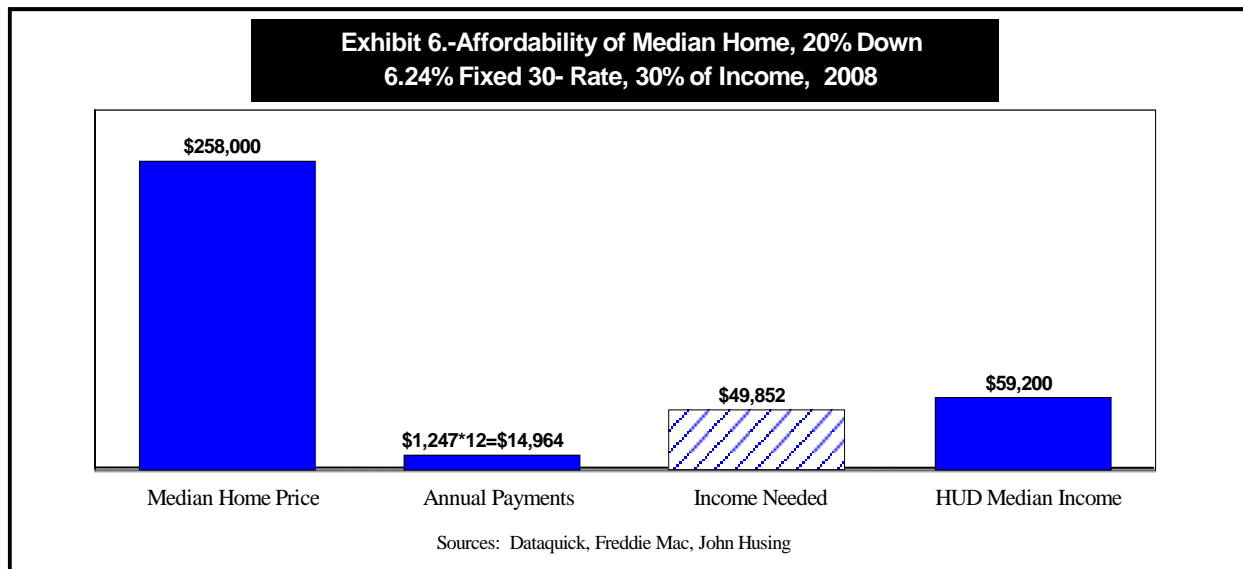
- ☐ What is your ideal home? Single Family Detached Home: 86%
- ☐ Do you prefer a low-density neighborhood even if driving is a necessity? Yes: 66%

Throughout Southern California's modern history, the dispersion of people into newer less developed areas has occur when undeveloped land in the region's older urban centers has become scarce and expensive. This has made it impossible for those areas to accommodate the new homes needed by Southern California's expanding middle class. Starting in the late 1970s, this fact has caused home developers to flock to the Inland Empire, making its two counties (*San Bernardino, Riverside*) the region's economic hot zone. Since 2000, the land rich High Desert's ability to accommodate new homes at prices the middle class can afford has made it the center of this migration. Thus, in fourth quarter 2007, the median single family home price in the High Desert was \$258,000. That was \$69,000 below the median for San Bernardino County, \$102,000 less in Riverside County and ranged from \$221,000 to \$364,000 less that the coastal counties (*Exhibit 5*).



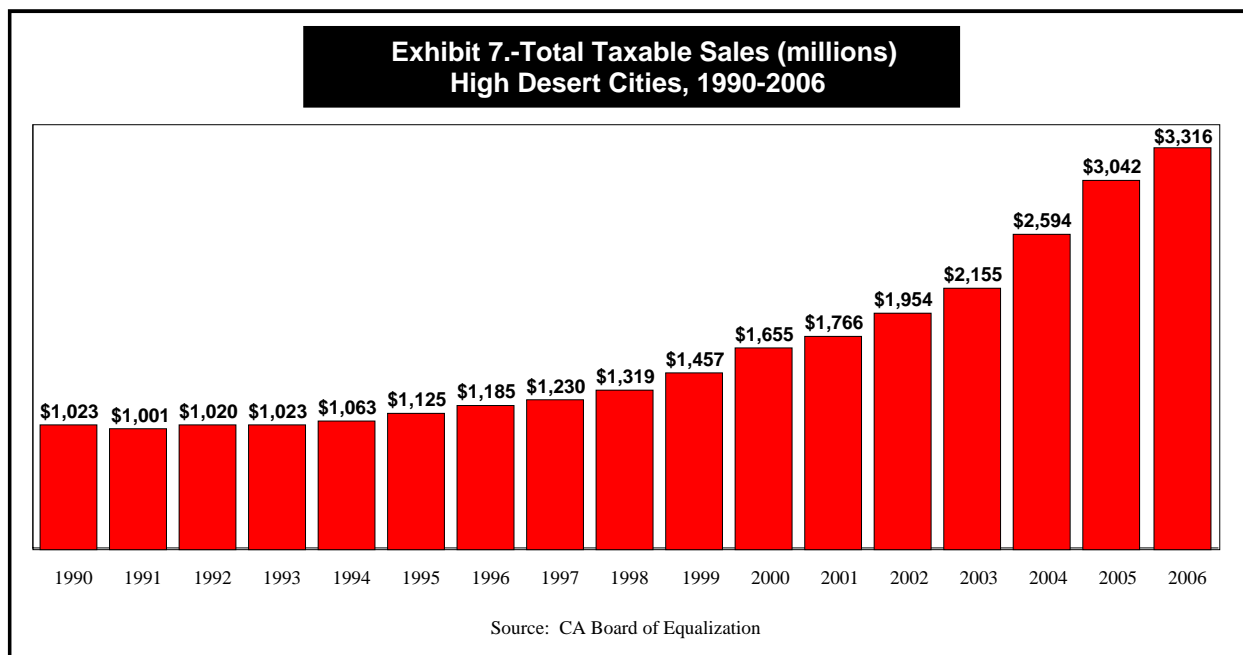
Affordable Middle Class Homes. Importantly, the High Desert's \$258,000 median price means that at 20% down (\$51,600) with a 30-year fixed mortgage at Freddie Mac's conforming loan rate of 6.24% a home would have a monthly payment of \$1,247 or \$14,964 per year. At 30% of income, this would require a family income of \$49,852. That is well below the median income of San Bernardino County of \$59,200 determined by the U.S. Department of Housing & Urban Development (*HUD*). It means over 50% of the county's buyers can afford the median priced home. In fact, the figure was 53.2% based upon the 2006 distribution of income (*Exhibit 6*).

Looking forward, as the current housing crisis settles down, the affordability of the High Desert will inevitably make it, again, the area of choice for thousands of families seeking to own their own homes. That is in keeping with Southern California's history. As indicated, the only real difference between the process affecting the Victor Valley and the manner in which other sub-regions have grown up is the fact that it is in the desert. In addition, this makes it a potentially self-contained retail market.



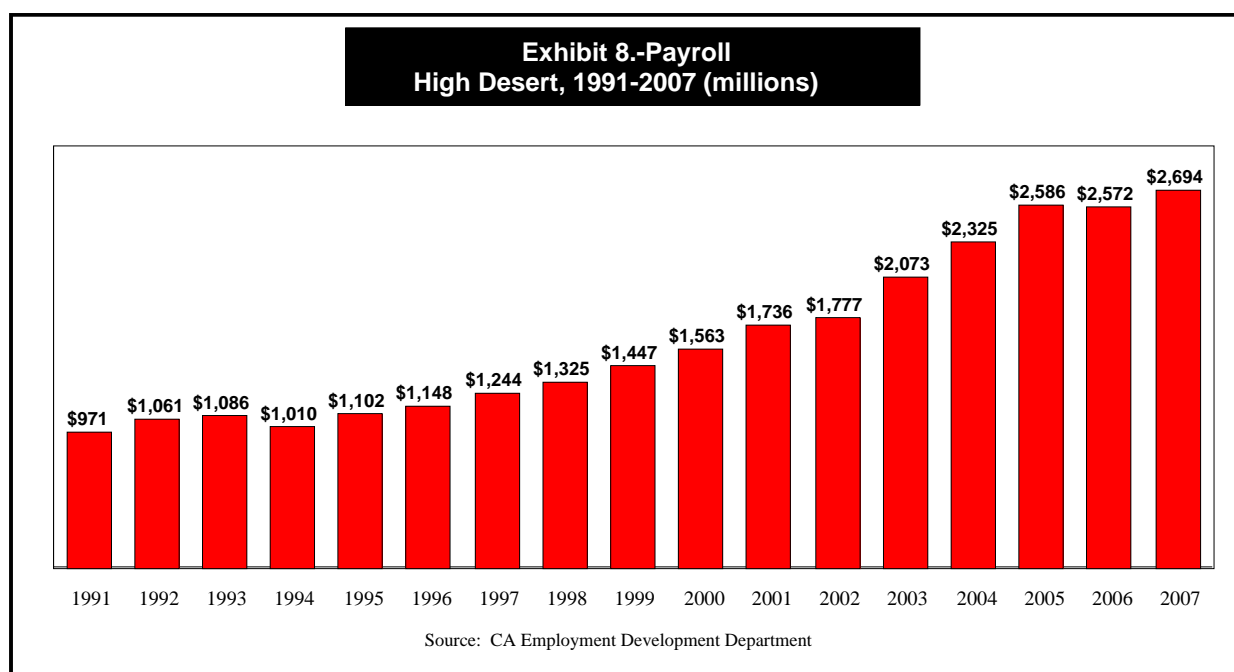
Economic Growth. With a lag, the same process that causes large numbers of people to migrate into a new part area of Southern California also begins to cause jobs and payroll to migrate into the market as well. Thus, as roof tops and incomes expand in a new high growth area like the High Desert, firms offering retail goods, consumer services, banking and other population serving products find it in their economic interest to open facilities in the region. As the market grows, this moves from local food centers to big box retailing to regional centers.

This pattern can be clearly seen in the expansion of the Victor Valley's taxable sales. From 2000 to the latest available CA Board of Equalization data in 2006, taxable retail sales in the four incorporated cities of the High Desert/Victor Valley doubled from \$1.66 billion to \$3.32 billion. That was a gain of \$1.67 billion or 100.3%. Inflation was just 22.7% in this six year period, indicating that there was powerful growth in underlying physical volume of goods being traded. This represented a furious growth rate of 12.3% compounded (*Exhibit 7*).



Meanwhile, the fact that a new high growth area like the High Desert has vast tracts of undeveloped industrial land, as well as a new and growing pool of workers, means that Southern California's production and distribution firms will ultimately migrate into the area. This can be seen in the Victor Valley where the Southern California Logistics Airport has recently become the newest U.S. center for aircraft testing, servicing, painting, reconfiguring and reconditioning with firms including Boeing Aerospace, Leading Edge, Victorville Aerospace and Southern California Aviation/Pratt & Whitney's opening and expanding.

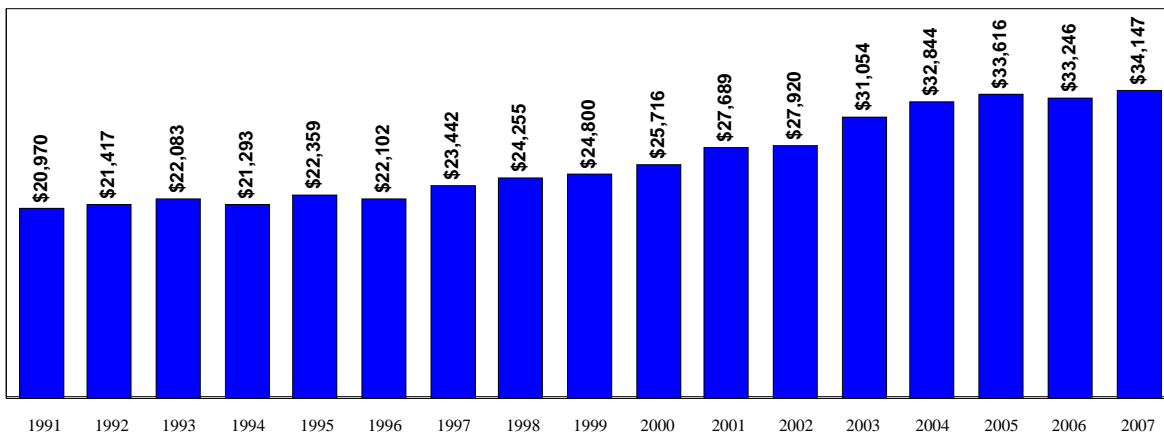
This migration of economic activity is also evident in the recent location of manufacturers like Rubber Maid, Cabo Yachts, Standard Abrasives, Northwest Pipe and Sumitomo Electric in the High Desert. In addition, the Victor Valley's location advantages are the reasons cited by BNSF in its recent announcement of the intention to put the railroad's newest major Southern California intermodal rail yard in the Victorville. This is also the reason that distributors like Wal-Mart, Goodyear and M&M Mars have chosen to locate enormous new warehousing and logistics operations in the marketplace.



With the population serving and blue collar economies of the High Desert growing, the payroll released into in the area has taken off. From 2000-2007, the total payroll in local firms and agencies climbed from \$1.56 billion to \$2.69 billion, an increase of \$1.13 billion or 72.3%, an annual average of 8.1% per year. This was during a time when inflation rose by 26.7% indicating that the underlying purchasing power of the payroll being released to local workers grew substantially (*Exhibit 8*).

Note: The gains in 2006 and 2007 were stronger than those shown in Exhibit 8. This is the case as the data for those two years was only available for the first quarters of the year. For the other years, the data was for the fourth quarters when higher levels of employment and payroll occurred due to the production, inventory buildup and retail activity during the Christmas holidays.

**Exhibit 9.-Payroll Per Job
High Desert, 1991-2007**



Source: CA Employment Development Department

With payroll increasing rapidly, the average pay per job in the High Desert (*including both full and part time workers*) has also increased. It went from \$25,716 in 2000 to \$34,147, up 32.8% or a 4.1% compound rate. The fact that the increase in average pay per local job was 6.1% faster than the 26.7% inflation rate is an indication that the quality of the job base in the High Desert has also improved.

Income & Income Distribution. When the aggressive expansion of one of Southern California's sub-markets occurs, its base of income expands as well. This has occurred in the High Desert. By 2006, according to an analysis based upon the U.S. Census Bureau's American Community Survey, there was \$5.79 billion in total personal income in the marketplace when the population was 333,585 (*Note: 2007 data will be available in August 2008*). The total income and income distribution were derived as follows (*Exhibits 10-11*):

Four Major Victor Valley City Areas

- The starting point was the average household income and per capita income for the contiguous cities and/or school districts for which the American Community Survey provided 2006 data on the High Desert. This area included Adelanto, Apple Valley, Hesperia, Victorville and adjacent unincorporated areas.
- For each sub-set of these four areas, two estimates of total income were derived. For each community:
 - The population and its per capita income were used to determine total income. These were summed to estimate total income at \$5.35 billion.
 - The number of households and average household income were used to determine total income. These were summed to estimate total income at \$5.66 billion.
- The distribution of families by income group was also taken from the 2006 American Community Survey and these were summed to yield the distribution of the 92,755 families for these city areas by income group for that year.

Exhibit 10.-Total Income, High Desert/Victor Valley Market Area, 2006

	Victorville	Adelanto & Unincorporated	Apple Valley Unified	Hesperia Unified	Four City Areas	Phelan, Oak Hills Piñon Hills	High Desert Market Area	Market Income	Share
Total population	100,672	37,487	84,140	95,661	317,960	15,623	333,585		
Less than \$10,000	1,673	290	1,656	1,874	5,493	357	5,850	\$29,248,023	0.5%
\$10,000 to \$14,999	2,084	920	2,716	1,413	7,133	269	7,402	\$92,523,508	1.6%
\$15,000 to \$24,999	3,728	1,405	2,894	3,362	11,389	640	12,029	\$240,575,142	4.2%
\$25,000 to \$34,999	2,947	1,443	3,166	3,342	10,898	636	11,534	\$346,018,538	6.0%
\$35,000 to \$49,999	3,677	1,354	4,021	5,249	14,301	999	15,300	\$650,243,009	11.2%
\$50,000 to \$74,999	5,916	2,305	4,425	5,005	17,651	952	18,603	\$1,162,712,786	20.1%
\$75,000 to \$99,999	4,564	1,512	4,021	2,953	13,050	562	13,612	\$1,191,043,719	20.6%
\$100,000-\$149,999	3,089	357	2,336	2,884	8,666	549	9,215	\$1,142,667,404	19.7%
\$150,000- \$199,999	291	285	1,338	941	2,855	179	3,034	\$508,205,633	8.8%
\$200,000 or more	620	15	249	435	1,319	83	1,402	\$427,541,809	7.4%
Total households	28,589	9,886	26,822	27,458	92,755	5,225	97,980		
Mean HH income	\$59,987	\$50,966	\$57,789	\$57,729	\$57,721	\$57,729	\$57,722		
Per capita income	\$18,142	\$14,320	\$19,445	\$17,313	\$17,787	\$17,313	\$17,765		
Total Income (HH)	\$1,714,968,343	\$503,849,876	\$1,550,016,558	\$1,585,122,882	\$5,353,957,659	\$301,634,025	\$5,655,591,684	\$5,790,779,570	100.0%
Total Income (PC)	\$1,826,391,424	\$536,813,840	\$1,636,102,300	\$1,656,178,893	\$5,655,486,457	\$270,480,999	\$5,925,967,456		
Median HH Income	\$50,531	\$45,744	\$46,651	\$44,478	\$47,107	\$44,478	\$46,967		

Exhibit 11.-Distribution of Families By Income Group By Community, 2006

	Victorville	Adelanto & Uninc.	Apple Valley Unified	Hesperia Unified	Four City Areas	Phelan, Oak Hills Piñon Hills	High Desert Market Area
Less than \$10,000	5.9%	2.9%	6.2%	6.8%	5.9%	6.8%	6.6%
\$10,000 to \$14,999	7.3%	9.3%	10.1%	5.1%	7.7%	5.1%	7.5%
\$15,000 to \$24,999	13.0%	14.2%	10.8%	12.2%	12.3%	12.2%	12.6%
\$25,000 to \$34,999	10.3%	14.6%	11.8%	12.2%	11.7%	12.2%	11.8%
\$35,000 to \$49,999	12.9%	13.7%	15.0%	19.1%	15.4%	19.1%	15.7%
\$50,000 to \$74,999	20.7%	23.3%	16.5%	18.2%	19.0%	18.2%	19.0%
\$75,000 to \$99,999	16.0%	15.3%	15.0%	10.8%	14.1%	10.8%	13.4%
\$100,000-\$149,999	10.8%	3.6%	8.7%	10.5%	9.3%	10.5%	9.0%
\$150,000- \$199,999	1.0%	2.9%	5.0%	3.4%	3.1%	3.4%	3.0%
\$200,000 or more	2.2%	0.2%	0.9%	1.6%	1.4%	1.6%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Sources: American Community Survey, 2006; Southern California Association of Governments, 2008; John Husing, Ph.D.

Piñon Hills, Phelan, Oak Hills

- As the American Community Survey does not provide data on cities or school districts of under 65,000 people, it was necessary to estimate incomes in Phelan, Piñon Hills and Oak Hills separately. The Southern California Association of Governments (SCAG) has just estimated population and household data by census tract based upon their work for the Regional Transportation Program. Their work was used for the census tracts that make up these unincorporated areas with the number of 2006 families estimated at 5,225.
- For these unincorporated communities, the per capita and average household income for Hesperia Unified School District were used since it most closely resembled these places. Two estimates of total income in each of the outlying communities was again derived in the same manner as indicated above:
 - The population and the assumed per capita incomes were used to determine total income. These were summed to estimate total income for these communities at \$301.6 million.
 - The number of households and the assumed average household income were used to determine total income. These were summed to estimate total income for these communities at \$270.5 million.
- The distribution of households by income group for 5,225 households in Piñon Hills, Oak Hills and Phelan was estimated by using the distribution in the Hesperia Unified School District due to its similar economic composition.

Total Market Estimates

- The estimates of total income in 2006 were created by adding together the information for the four city areas and the three smaller communities:
 - The estimate using the per capita incomes yielded a total income of \$5.66 billion.
 - The estimate using the per household incomes yield a total income of \$5.93 billion.
 - These were averaged to yield an estimate of **\$5.79 billion** for the High Desert Market.
- The number of households by income group for the four city areas was added to the estimated households in each group in the smaller communities. This gave the 2006 distribution of the 97,980 households by income group for the full High Desert Market.

Total Market Income Distribution

- To estimate the 2006 distribution of income within the full High Desert market, the following procedure was used:
 - The number of households in each income group was multiplied by the assumed average income for that group.
 - For income groups from \$0 to \$150,000, the mid-point (50%) of the income group was used to represent the average income of families in that group.
 - For groups above \$150,000, the average income was estimated at 35% above the lower limit, not the mid-point, assuming more families would be below the mid-point.
 - The result was the 2006 income distribution for the High Desert Market (*Exhibit 12*).

Exhibit 12.-Income Distribution, High Desert Market, 2006				
Income Group	Household	Assumed Income	Income	Share
Less than \$10,000	5,850	\$5,000	\$29,248,023	0.5%
\$10,000 to \$14,999	7,402	\$12,500	\$92,523,508	1.6%
\$15,000 to \$24,999	12,029	\$20,000	\$240,575,142	4.2%
\$25,000 to \$34,999	11,534	\$30,000	\$346,018,538	6.0%
\$35,000 to \$49,999	15,300	\$42,500	\$650,243,009	11.2%
\$50,000 to \$74,999	18,603	\$62,500	\$1,162,712,786	20.1%
\$75,000 to \$99,999	13,612	\$87,500	\$1,191,043,719	20.6%
\$100,000-\$149,999	9,215	\$124,004	\$1,142,667,404	19.7%
\$150,000- \$199,999	3,034	\$167,500	\$508,205,633	8.8%
\$200,000 or more	1,402	\$305,000	\$427,541,809	7.4%
Total Income	97,980		\$5,790,779,570	100.0%

Source: Exhibit 10, page 9

Use of Spending & Retail Spending. Given the amount of income in each income group within the High Desert, it is possible to estimate the manner in which that income would be used. The estimates are based upon extensive research by the U.S. Bureau of Labor Statistics (BLS) in support of their Consumer Price Index measurements. Two BLS surveys were used:

- For incomes up to \$75,000: Western Region By Income Before Taxes, Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2006.
- For incomes of \$75,000 and above, U.S. Higher Income Before Taxes, Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2006.

These surveys provide the best available information on the wide variety of uses for which consumers can be expected to use their income. From these, percentages of expenditures can be determined for different income groups including spending on items like food (4.5% to 9.5%), mortgages (2.7% to 10.0%), vehicle purchases (5.3% to 8.1%), entertainment tickets (0.8% to 2.0%), education (1.2% to 4.6%) and medical services (0.9% to 2.1%). It also includes the degree to which people at various income levels devote their incomes to items like pensions and savings (1.1% to 14.3%) (*Exhibit 13*).

Given the \$5.79 billion of 2006 income in the High Desert market, as well as the amount of this income in each income group (*Exhibit 12*) plus the expenditure patterns by which these funds can be expected to be used by each income group (*Exhibit 13*), it is possible to estimate the amount of money that would be devoted to each category of income usage by Victor Valley residents in those income groups (*Exhibit 14*).

Next, the uses of the income can be summed across all income groups to show how High Desert residents would use the full \$5.79 billion in income available to them (*Exhibit 15*). Selected examples include: food (\$389 million), apparel (\$218 million), mortgages (\$507 million), auto purchases (\$442 million), pensions and savings (\$633 million).

Finally, it is necessary to determine which of the uses of income constitute expenditures that would impact retail space in the High Desert market. For many, it is 100%. This would certainly apply to items such as food, restaurant meals, apparel, furniture, appliances or drugs.

Exhibit 13.-Western Consumer Expenditure Pattern By Income, 2006

	Under \$10,000	\$10,000- \$14,999	\$15,000- \$24,999	\$25,000- \$34,999	\$35,000- \$49,999	\$50,000- \$74,999	\$75,000- \$99,999	\$100,000- \$149,999	\$150,000 & Up
Food at home	9.5%	10.4%	9.7%	8.5%	7.7%	7.0%	6.8%	6.0%	4.5%
Food away from home	6.8%	5.2%	5.3%	5.9%	5.8%	5.4%	5.9%	5.7%	4.9%
Alcoholic beverages	1.4%	1.1%	0.9%	1.0%	1.2%	1.1%	0.9%	1.0%	1.1%
Mortgage interest & charges	4.7%	2.7%	4.4%	5.9%	7.6%	9.3%	9.3%	10.0%	9.6%
Property taxes	2.4%	2.4%	2.4%	2.1%	2.2%	2.9%	3.4%	3.7%	4.0%
Maintenance, repairs, insurance, other	1.6%	3.3%	2.7%	2.0%	1.7%	2.1%	2.3%	2.2%	2.5%
Rented dwellings	18.1%	17.3%	14.2%	12.7%	9.8%	6.2%	3.2%	1.7%	0.9%
Other lodging	0.9%	0.4%	0.6%	0.6%	0.7%	0.9%	1.1%	1.5%	2.3%
Natural gas	0.9%	0.9%	1.0%	0.9%	0.8%	0.8%	0.9%	0.8%	0.7%
Electricity	2.6%	2.6%	2.6%	2.4%	2.2%	2.1%	2.3%	2.0%	1.6%
Fuel oil & other fuels	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Telephone services	2.4%	2.3%	2.5%	2.4%	2.4%	2.2%	2.1%	1.8%	1.3%
Water & other public services	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%	0.6%
Personal services	0.3%	0.4%	0.2%	0.3%	0.6%	0.6%	0.9%	0.9%	1.5%
Other household expenses	1.2%	1.2%	1.2%	1.0%	1.2%	1.0%	1.0%	1.2%	1.7%
Laundry and cleaning supplies	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
Other household products	0.8%	0.8%	0.8%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%
Postage and stationery	0.4%	0.3%	0.4%	0.4%	0.3%	0.3%	0.4%	0.3%	0.3%
Household textiles	0.2%	0.3%	0.4%	0.4%	0.3%	0.4%	0.3%	0.3%	0.3%
Furniture	0.5%	0.7%	1.3%	1.0%	0.9%	0.9%	0.9%	1.0%	1.4%
Floor coverings	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
Major appliances	0.3%	0.2%	0.6%	0.5%	0.4%	0.4%	0.5%	0.6%	0.5%
Small appliances, misc. house wares	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Misc. household equipment	1.1%	1.1%	1.4%	1.8%	2.2%	1.4%	1.5%	1.5%	1.6%
Apparel and services	5.1%	3.7%	3.7%	4.1%	3.7%	3.7%	3.6%	3.8%	3.9%
Vehicle purchases (net outlay)	5.7%	5.5%	5.3%	7.3%	8.1%	8.0%	7.7%	7.4%	8.0%
Gasoline and motor oil	4.3%	4.2%	4.7%	4.9%	4.8%	4.8%	4.9%	4.1%	2.9%
Other vehicle expenses	4.5%	4.0%	4.9%	5.0%	5.5%	5.4%	5.1%	4.8%	4.0%
Public transportation	1.3%	0.9%	1.1%	0.9%	1.0%	1.2%	1.0%	1.3%	1.4%
Health insurance	2.7%	3.4%	3.9%	3.2%	2.9%	2.9%	2.7%	2.4%	1.8%
Medical services	0.9%	1.5%	2.1%	1.6%	1.7%	1.5%	1.5%	1.1%	1.3%
Drugs	0.9%	1.5%	1.6%	1.2%	1.2%	0.9%	0.9%	0.8%	0.6%
Medical supplies	0.2%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Entertainment fees and admissions	1.0%	0.8%	1.1%	1.0%	1.0%	1.2%	1.2%	1.5%	2.0%
Audio/visual equip. & service	1.9%	2.1%	1.9%	1.9%	1.9%	1.8%	1.8%	1.7%	1.4%
Pets, toys, hobbies, play equip.	0.8%	1.0%	0.9%	0.8%	0.9%	0.8%	0.9%	0.9%	0.7%
Other entertainment	0.6%	0.3%	1.1%	0.5%	0.8%	1.1%	0.9%	1.0%	1.8%
Personal care products & service	1.2%	1.2%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.0%
Reading	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.2%
Education	4.6%	3.1%	1.3%	1.2%	1.3%	1.3%	1.6%	2.2%	3.1%
Tobacco products and smoking	0.9%	1.2%	0.8%	0.8%	0.7%	0.6%	0.6%	0.4%	0.2%
Miscellaneous	1.7%	2.9%	2.1%	2.2%	1.9%	2.0%	1.6%	1.7%	1.9%
Cash contributions	2.5%	4.1%	3.2%	3.3%	2.8%	3.1%	3.3%	4.3%	5.5%
Life & other personal insurance	0.2%	0.6%	0.4%	0.3%	0.4%	0.5%	0.7%	0.7%	0.9%
Pensions and Social Security	1.1%	1.9%	3.6%	5.7%	7.5%	9.9%	12.2%	13.9%	14.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Bureau of Labor Statistics Western region by income before taxes: Average annual expenditures and characteristics, Consumer Expenditure Pattern. U.S. High Income Consumers, average annual expenditure and characteristics.

Exhibit 14.-High Desert Spending By Income Group, 2006 (000)

	Under \$10,000	\$10,000- \$14,999	\$15,000- \$24,999	\$25,000- \$34,999	\$35,000- \$49,999	\$50,000- \$74,999	\$75,000- \$99,999	\$100,000- \$149,999	\$150,000 & Up
Food at home	\$2,775	\$9,626	\$23,354	\$29,500	\$50,203	\$81,777	\$81,563	\$68,812	\$41,712
Food away from home	\$1,981	\$4,813	\$12,654	\$20,349	\$37,535	\$62,810	\$70,186	\$64,578	\$45,762
Alcoholic beverages	\$399	\$1,014	\$2,262	\$3,622	\$7,649	\$12,946	\$11,105	\$11,552	\$10,319
Mortgage interest & charges	\$1,363	\$2,469	\$10,656	\$20,314	\$49,153	\$107,704	\$110,511	\$114,232	\$90,150
Property taxes	\$715	\$2,192	\$5,710	\$7,343	\$14,521	\$33,187	\$41,055	\$42,207	\$37,821
Maintenance, repairs, insurance, other	\$459	\$3,042	\$6,471	\$6,974	\$10,913	\$24,994	\$27,536	\$25,139	\$23,728
Rented dwellings	\$5,302	\$15,982	\$34,094	\$43,872	\$63,481	\$72,624	\$37,740	\$18,993	\$8,006
Other lodging	\$265	\$401	\$1,513	\$2,027	\$4,527	\$10,461	\$12,523	\$17,609	\$21,816
Natural gas	\$255	\$842	\$2,340	\$3,044	\$5,126	\$9,724	\$11,225	\$9,428	\$6,974
Electricity	\$765	\$2,412	\$6,327	\$8,304	\$14,014	\$24,069	\$27,656	\$23,077	\$14,958
Fuel oil & other fuels	\$59	\$100	\$517	\$618	\$1,035	\$2,248	\$2,868	\$2,871	\$2,145
Telephone services	\$708	\$2,128	\$5,922	\$8,424	\$15,694	\$25,273	\$25,393	\$20,850	\$12,413
Water & other public services	\$292	\$954	\$2,472	\$3,303	\$6,060	\$10,406	\$9,095	\$8,099	\$5,228
Personal services	\$74	\$345	\$396	\$1,101	\$3,974	\$6,995	\$10,217	\$10,216	\$14,267
Other household expenses	\$342	\$1,150	\$2,856	\$3,587	\$7,608	\$11,624	\$11,988	\$13,436	\$15,475
Laundry and cleaning supplies	\$86	\$377	\$775	\$1,091	\$1,995	\$4,023	\$3,580	\$2,967	\$1,673
Other household products	\$220	\$721	\$2,035	\$2,217	\$3,949	\$7,399	\$8,780	\$6,619	\$5,970
Postage and stationery	\$106	\$268	\$864	\$1,435	\$2,228	\$3,612	\$4,204	\$3,974	\$2,531
Household textiles	\$51	\$232	\$890	\$1,295	\$2,020	\$4,086	\$3,889	\$3,481	\$2,632
Furniture	\$152	\$633	\$3,115	\$3,452	\$6,152	\$9,974	\$11,036	\$11,737	\$13,097
Floor coverings	\$22	\$20	\$103	\$174	\$401	\$787	\$990	\$1,336	\$1,578
Major appliances	\$96	\$196	\$1,473	\$1,684	\$2,482	\$4,615	\$5,565	\$7,098	\$4,799
Small appliances, misc. house wares	\$39	\$289	\$652	\$807	\$1,274	\$2,715	\$2,521	\$2,878	\$2,051
Misc. household equipment	\$308	\$1,042	\$3,362	\$6,102	\$14,009	\$16,412	\$18,089	\$16,938	\$15,024
Apparel and services	\$1,500	\$3,386	\$8,813	\$14,207	\$24,038	\$43,411	\$43,142	\$43,653	\$36,236
Vehicle purchases (net outlay)	\$1,676	\$5,061	\$12,718	\$25,196	\$52,970	\$93,268	\$92,220	\$84,325	\$74,784
Gasoline and motor oil	\$1,256	\$3,911	\$11,397	\$17,022	\$31,068	\$55,425	\$57,890	\$47,387	\$27,364
Other vehicle expenses	\$1,306	\$3,739	\$11,701	\$17,370	\$35,474	\$63,346	\$60,335	\$54,389	\$37,879
Public transportation	\$372	\$801	\$2,739	\$3,093	\$6,197	\$14,464	\$12,240	\$14,396	\$13,388
Health insurance	\$783	\$3,186	\$9,379	\$11,054	\$19,115	\$33,444	\$31,923	\$27,325	\$16,594
Medical services	\$268	\$1,351	\$4,966	\$5,664	\$10,826	\$17,839	\$17,477	\$13,135	\$12,028
Drugs	\$261	\$1,391	\$3,769	\$4,244	\$7,730	\$10,642	\$10,557	\$8,921	\$5,439
Medical supplies	\$63	\$285	\$775	\$842	\$1,619	\$2,415	\$2,477	\$2,604	\$2,182
Entertainment fees and admissions	\$282	\$721	\$2,762	\$3,442	\$6,593	\$13,886	\$14,553	\$17,684	\$19,045
Audio/visual equip. & service	\$548	\$1,956	\$4,654	\$6,690	\$12,537	\$21,159	\$21,618	\$19,603	\$13,126
Pets, toys, hobbies, play equip.	\$241	\$898	\$2,268	\$2,745	\$5,801	\$9,779	\$10,948	\$10,086	\$6,770
Other entertainment	\$190	\$313	\$2,555	\$1,893	\$5,187	\$12,890	\$11,206	\$11,689	\$16,376
Personal care products & service	\$359	\$1,142	\$3,095	\$4,414	\$8,690	\$13,816	\$14,717	\$13,491	\$9,613
Reading	\$78	\$277	\$703	\$902	\$1,848	\$2,930	\$2,880	\$2,871	\$2,247
Education	\$1,341	\$2,865	\$3,204	\$4,145	\$8,669	\$15,027	\$18,549	\$24,742	\$28,899
Tobacco products and smoking	\$267	\$1,130	\$1,900	\$2,700	\$4,385	\$6,884	\$6,675	\$4,173	\$1,571
Miscellaneous	\$504	\$2,713	\$5,081	\$7,686	\$12,116	\$23,380	\$19,456	\$18,911	\$17,380
Cash contributions	\$728	\$3,827	\$7,740	\$11,268	\$17,937	\$36,521	\$39,537	\$48,730	\$51,929
Life & other personal insurance	\$69	\$521	\$896	\$1,126	\$2,446	\$6,090	\$8,061	\$7,804	\$8,857
Pensions and Social Security	\$323	\$1,803	\$8,647	\$19,677	\$48,990	\$115,632	\$145,270	\$158,625	\$133,912
Total	\$29,248	\$92,524	\$240,575	\$346,019	\$650,243	\$1,162,713	\$1,191,044	\$1,142,667	\$935,747

Source: Income Available By Income Group in Exhibit 12 distributed by spending percentages in Exhibit 13.

Exhibit 15.-Total & Retail Spending, High Desert, 2006

	Total Spending	Share of Retail	Retail Spending
Food at home	\$389,321,589	100.0%	\$389,321,589
Food away from home	\$320,668,183	100.0%	\$320,668,183
Alcoholic beverages	\$60,867,725	100.0%	\$60,867,725
Mortgage interest & charges	\$506,551,881	0.0%	\$0
Property taxes	\$184,750,942	0.0%	\$0
Maintenance, repairs, insurance, other	\$129,255,851	50.0%	\$64,627,925
Rented dwellings	\$300,094,384	0.0%	\$0
Other lodging	\$71,142,732	0.0%	\$0
Natural gas	\$48,956,205	0.0%	\$0
Electricity	\$121,582,401	0.0%	\$0
Fuel oil & other fuels	\$12,460,572	0.0%	\$0
Telephone services	\$116,805,707	0.0%	\$0
Water & other public services	\$45,908,174	0.0%	\$0
Personal services	\$47,585,270	100.0%	\$47,585,270
Other household expenses	\$68,065,512	100.0%	\$68,065,512
Laundry and cleaning supplies	\$16,566,227	100.0%	\$16,566,227
Other household products	\$37,910,260	100.0%	\$37,910,260
Postage and stationery	\$19,222,554	90.0%	\$17,300,298
Household textiles	\$18,576,268	100.0%	\$18,576,268
Furniture	\$59,347,410	100.0%	\$59,347,410
Floor coverings	\$5,411,296	100.0%	\$5,411,296
Major appliances	\$28,008,567	100.0%	\$28,008,567
Small appliances, misc. house wares	\$13,224,658	100.0%	\$13,224,658
Misc. household equipment	\$91,285,333	100.0%	\$91,285,333
Apparel and services	\$218,386,445	100.0%	\$218,386,445
Vehicle purchases (net outlay)	\$442,218,284	0.0%	\$0
Gasoline and motor oil	\$252,719,353	0.0%	\$0
Other vehicle expenses	\$285,539,989	40.0%	\$114,215,996
Public transportation	\$67,689,029	0.0%	\$0
Health insurance	\$152,803,374	0.0%	\$0
Medical services	\$83,554,478	0.0%	\$0
Drugs	\$52,954,632	100.0%	\$52,954,632
Medical supplies	\$13,261,340	100.0%	\$13,261,340
Entertainment fees and admissions	\$78,968,371	75.0%	\$59,226,278
Audio/visual equip. & service	\$101,890,758	100.0%	\$101,890,758
Pets, toys, hobbies, play equip.	\$49,535,625	100.0%	\$49,535,625
Other entertainment	\$62,299,745	75.0%	\$46,724,809
Personal care products & service	\$69,336,039	100.0%	\$69,336,039
Reading	\$14,735,807	100.0%	\$14,735,807
Education	\$107,439,743	0.0%	\$0
Tobacco products and smoking	\$29,685,034	100.0%	\$29,685,034
Miscellaneous	\$107,227,253	75.0%	\$80,420,440
Cash contributions	\$218,215,955	0.0%	\$0
Life & other personal insurance	\$35,870,348	0.0%	\$0
Pensions and Social Security	\$632,878,268	0.0%	\$0
Total	\$5,790,779,570	36.1%	\$2,089,139,723

Source: Sum rows in Exhibit 14, estimated shares of spending applicable to retail space by John Husing, Ph.D.

The situation is less clear for consumer services such as expenditures on home maintenance, entertainment or automotive repair. Many uses of income do not impact retail space such as pensions and savings, insurance, medical services, mortgage or rental payments, or utilities.

With assumptions made about these, it is possible to estimate the 2006 spending within the High Desert market that does impact retail space. This was estimated at **\$2.09 billion** of the \$5.79 billion in income within the market area or 36.1% (*Exhibit 15*). Note: Spending would be higher in 2007 as the population grew by 10.0% from 2006-2007.

Potential Demand For Retail Space. Given the estimates of retail spending by category, it is possible to estimate the potential demand for retail space within the High Desert market. This is accomplished using the Urban Land Institute's Dollars and Cents of Shopping Centers, 2004. The institute's publication provides estimates of the amount of spending necessary to support each square foot of different types of retail space.

Exhibit 16.-Needed Sales per Square Foot of Retail Space, 2004									
	Super Regional		Regional		Community		Neighborhood		Wgt. Avg.
	Median/SF	Median SF	Median/SF	Median SF	Median/SF	Median SF	Median/SF	Median SF	2004
Food	\$365.63	1,128	\$359.29	1,200	\$336.30	16,500	\$347.10	29,000	\$344.12
Food Services	\$459.36	795	\$367.14	1,216	\$280.19	2,261	\$224.28	1,750	\$305.15
Clothing & Accessories	\$310.12	3,502	\$259.09	3,999	\$195.97	4,000	\$167.96	2,220	\$238.97
Home Furnishings	\$354.35	2,658	\$209.25	5,287	\$204.32	5,066	\$147.35	3,630	\$217.42
Home Appliances/Music	\$379.00	2,489	\$315.05	2,676	\$271.31	3,104	\$137.85	2,240	\$279.51
Building Materials/Hardware					\$169.90	12,500	\$143.30	6,800	\$160.53
Automotive					\$266.90	4,700			\$266.90
Hobby/Special Interest	\$299.84	2,732	\$230.75	3,537	\$201.46	4,090	\$163.15	2,034	\$212.04 ⁽¹⁾
Gifts/Specialty	\$268.26	2,529	\$215.58	3,171	\$147.58	3,715	\$186.32	3,000	
Liquor					\$321.25	3,440	\$254.10	2,400	\$293.65
Drugs	\$317.34	10,594			\$374.26	10,920	\$408.40	8,993	\$364.56
Other Retail	\$421.92	815	\$277.09	1,500	\$228.90	2,108	\$159.18	1,750	\$246.33
Personal services	\$294.76	1,146	\$228.56	1,200	\$158.14	1,500	\$127.73	1,400	\$195.98
Entertainment/Community	\$74.79	3,130	\$74.01	7,723	\$88.00	5,000	\$86.41	2,940	\$79.80

(1) Estimate for the combined Hobby/Special Interest & Gifts/Specialty sectors

Source: Dollars & Cents of Shopping Centers: 2004, Urban Land Institute.

A weighted average of the required *sales per square foot* for each category of retail spending was calculated using the median square foot in each type of center (*super regional, regional, community, neighborhood*) (*Exhibit 16*). These were increased by 3% compounded for two years to raise them to a 2006 estimate. The result was then applied against the estimated spending in each retail category (*Exhibit 17*). This led to a calculation of the potential estimated space that the spending in the High Desert/Victor Valley market could support in 2006:

- The calculation found a total potential demand from estimated retail spending by category in the High Desert market of **8.26 million** square feet of retail space from \$2.09 billion in potential retail spending, with the average sales per square foot of \$252.91.
- In fourth quarter 2007, CB Richard Ellis indicates that there was **5.69 million** square feet of occupied retail space in the market place. Actual 2006 taxable sales in categories

applicable to retail space was \$1.80 billion with the average sales per square foot of \$316.45. The 2007 figure would be higher with more 10.0% more people in the market.

- The Victor Valley could thus support an **additional 2.57 million square feet** of retail space, if it is properly targeted or **45.1%**. Potential taxable sales are \$288 million higher than the actual 2006 level or 16.0%. Currently, the excess demand represents spending leaking out of the market. The extra space would be, in part, supported by capturing this spending. It would also be supported in light of the fact that the market currently has 25.1% more sales per square foot in its existing space than is traditional (*average of \$316.45 vs. need of \$252.91*).

Exhibit 17.-Potential Square Footage of Retail, High Desert Market, 2006				
Retail Category	Estimated Spending	Spending Per Sq. Ft.	3% compounded	Square Foot Potential
Food at home	\$389,321,589	\$344.12	\$365.07	1,066,419
Food away from home	\$320,668,183	\$305.15	\$323.74	990,520
Alcoholic beverages	\$60,867,725	\$293.65	\$311.54	195,378
Maintenance, repairs, insurance, other	\$64,627,925	\$195.98	\$207.91	310,842
Personal services	\$47,585,270	\$195.98	\$207.91	228,871
Other household expenses	\$68,065,512	\$195.98	\$207.91	327,375
Laundry and cleaning supplies	\$16,566,227	\$195.98	\$207.91	79,679
Other household products	\$37,910,260	\$246.33	\$261.33	145,067
Postage and stationery	\$17,300,298	\$198.89	\$211.01	81,990
Household textiles	\$18,576,268	\$238.97	\$253.52	73,273
Furniture	\$59,347,410	\$217.42	\$230.66	257,290
Floor coverings	\$5,411,296	\$160.53	\$170.30	31,774
Major appliances	\$28,008,567	\$279.51	\$296.53	94,455
Small appliances, misc. house wares	\$13,224,658	\$279.51	\$296.53	44,598
Misc. household equipment	\$91,285,333	\$279.51	\$296.53	307,847
Apparel and services	\$218,386,445	\$238.97	\$253.52	861,410
Other vehicle expenses	\$114,215,996	\$266.90	\$283.15	403,370
Drugs	\$52,954,632	\$364.56	\$386.76	136,919
Medical supplies	\$13,261,340	\$364.56	\$386.76	34,288
Entertainment fees and admissions	\$59,226,278	\$79.80	\$84.66	699,563
Audio/visual equip. & service	\$101,890,758	\$279.51	\$296.53	343,612
Pets, toys, hobbies, play equip.	\$49,535,625	\$212.04	\$224.96	220,200
Other entertainment	\$46,724,809	\$79.80	\$84.66	551,899
Personal care products & service	\$69,336,039	\$246.33	\$261.33	265,320
Reading.	\$14,735,807	\$159.64	\$169.36	87,010
Tobacco products and smoking	\$29,685,034	\$246.33	\$261.33	113,592
Miscellaneous	\$80,420,440	\$246.33	\$261.33	307,735
Total Potential Space Demand	\$2,089,139,723	\$238.40		8,260,296
Actual Occupied Space	\$1,801,036,091	\$316.45		5,691,312
Potential Additional Space Demand	\$288,103,633			2,568,984
Additional Potential Space	16.0%	25.1%		45.1%

Sources: Exhibit 15 for spending; Exhibit 16 for spending per square foot; CB Richard Ellis for actual occupied space.

Note: With population up 10.0% from 2006-2007, these data are an underestimate of the market's strength as income and spending in 2007 would be higher than the \$2.09 billion in 2006. That means somewhat more extra space could be supported than estimated here.

Summary. In roughly 2000, the migration of Southern California's edge of high speed economic growth began to dramatically change the High Desert/Victor Valley market. Population soared by 120,133 people from 2000-January 2007 (48.7%) reaching 366,989 with the expectation that it will hit 425,392 by mid-2012. The population was 333,585 in 2006. Total taxable sales doubled from \$1.65 billion to \$3.32 billion in the six years from 2000-2006, up 100.3% or a compound growth rate of 12.3%. The payroll released into the market grew from \$1.56 billion to \$2.69 billion from 2000-2007, up \$1.13 billion or 72.3%.

In this environment, the income reaching families in the High Desert grew to \$5.79 billion for the market's 97,980 households in 2006. Based upon the estimated distribution of this income among income groups and research on spending and saving patterns, it was estimated that \$2.09 billion of this income or 36.1% would be spent on categories that would drive demand for retail space. With 10.0% more people, the figure will be higher in 2007.

Using estimates of the required spending per square foot for different types of retail activity, the potential demand for retail space was 8.26 million square feet in 2006. Given the existing occupied square footage of 5.69 million square feet, the potential additional space that could be occupied was calculated at 2.57 million square feet or an additional 45.1%. As indicated, the spending that could support this space is currently found in two places. It is either funds that are currently leaking out of the market or it is the inordinately high spending per square foot in the Victor Valley marketplace.

A check on these calculations was a comparison of the 2006 taxable sales in categories that use retail space of \$1.80 billion compared to the potential of \$2.09 billion. That indicates that \$288 million or 16.0% more spending could be captured by the market. The difference between this calculation and the 45.1% more space that could be supported occurs because currently the average sales per square foot in the High Desert is \$316.45 or 25.1% above the \$252.91 that would be expected in a mature market.

Note: These are conservative estimates in that the square footage figures used above are for 2007 while the spending figures are for 2006 when the population was 10.0% smaller. In fact, the market could support more than the 2.57 million square feet or 45.1% in additional space.

COUNTY OF
SAN BERNARDINO



ECONOMIC DEVELOPMENT AGENCY
